

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001884

SIPDIS

STATE FOR NEA/ARPI, EB

E.O. 12958: DECL: 04/26/2015

TAGS: [EPET](#) [PREL](#) [PTER](#) [KU](#) [IZ](#) [IR](#) [OIL](#) [SECTOR](#)

SUBJECT: IRANIAN GAS AND PROJECT KUWAIT: THE VIEW FROM KPC

REF: A. STATE 83661

[B](#). KUWAIT 943

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d)

[1](#). (C) Summary: During a May 2 meeting, Kuwait Petroleum Corporation (KPC) General Counsel, Shaykh Nawaf Saud Nasser Al-Sabah (strictly protect) gave Poloff a readout on the status of Kuwait's efforts to import natural gas, including details on the highly publicized March 15 MOU with Iran. Nawaf said Kuwait viewed Iran as a secondary source for natural gas, and asserted that Kuwait would ideally like to import gas from Qatar. In an effort to ensure Iranian cooperation, he noted that Kuwait had structured the MOU so as to require Iran to sink substantial costs into the construction of a pipeline (estimated at \$100 million) before recouping any costs. In the event the agreement with Iran falls through and the Saudi-Qatari row remains unresolved, Nawaf said Kuwait would consider accepting a Qatari offer to supply LNG, although this would require the construction of a very costly LNG terminal. He did not see the importation of Iraqi gas as a viable alternative. On Project Kuwait, Nawaf said the recent favorable report on the project by the National Assembly's Finance Committee would virtually ensure the body's support for the measure once brought to the floor. He said the GOK hopes to conclude a vote on the issue before the National Assembly's June 28 recess date. End Summary.

Iranians Duplicitous in MOU Negotiations

[2](#). (C) KPC General Counsel Shaykh Nawaf Saud Nasser Al-Sabah told Poloff May 2 that he had accompanied Energy Minister Shaykh Ahmed Al-Fahad Al-Sabah to Iran to negotiate the March 15 gas MOU on behalf of Kuwait. During the trip, Nawaf said, the CEO of Iran's state gas company had engaged in duplicitous behavior, changing "half the agreement" in the few hours between the end of negotiations and the signing ceremony and leading Nawaf to threaten to withhold his Minister's signature. Although the CEO denied making anything more than minor changes to the document, Nawaf said it was clear he had authored all of them.

Sunken Pipeline Equals Sunk Costs

[3](#). (C) Wary of dealing with Iran, Nawaf said Kuwait had purposefully structured the MOU so as to force Iran to assume substantial sunk costs before realizing any profits. Accordingly, the MOU calls for Iran to build or contract out for the building of the necessary pipeline, which KPC estimates will cost \$100 million, before any further agreements are made. Previous drafts of the MOU had called for a jointly owned pipeline, operated by an International Oil Company (IOC) on a Build, Operate, Transfer (BOT) basis. When Iran approached IOCs about the project, however, none would agree to undertake it without receiving a portion of the upstream business, terms Iran was unwilling to accept.

Iranian Gas Substandard and Secondary Source Only

[4](#). (C) Nawaf said KPC had queried Turkish officials about their gas deal with Iran, and had been informed that Turkey had pulled out of it after more than five years, in part because of the poor quality of Iranian gas. Even if this turns out to be true, Nawaf said, KPC envisions an Iranian source as secondary to others it is pursuing.

Qatar Offers LNG Until Political Settlement with SAG

[5](#). (C) Chief among Kuwait's planned sources is Qatar, which Nawaf said KPC is still hoping will settle its differences with Saudi Arabia, thereby allowing for a pipeline across Saudi territorial waters. In the meantime, he said, Qatar has approached Kuwait with an offer to supply Liquefied Natural Gas (LNG) via ships. Nawaf said KPC estimates for the construction of an LNG terminal were in the range of \$500 million, an extremely high cost, and one that KPC is unwilling to bear for transport from such a close distance. On sourcing from Iraq, Nawaf said that this would also require significant investment in a pipeline for a very small

amount of flare gas, and would not be worth the expense.
(Note: He did not address Iraqi gas exports to Kuwait that could be used to power electricity generation for sale back to Iraq. End Note.)

Project Kuwait To Pass National Assembly

16. (C) The recent favorable report from the National Assembly's Finance Committee on the Northern Oilfields Project (Project Kuwait) makes it almost certain that the project will be approved by the entire National Assembly, said Nawaf. He said KPC and the GOK hope to have the assembly vote on the project before the June 28 recess date which will mark the end of the legislative year. Although he admitted the GOK may not meet this deadline, Nawaf said the Minister is committed to the project and is willing to make every effort to ensure its passage by year's end.

Debate Over Bookable Reserves

17. (C) Responding to Poloffs comment that IOC's were losing interest in Project Kuwait, Nawaf said there is ongoing debate inside KPC over whether the project would allow IOCs to book Kuwaiti reserves. So far, he said, the Minister and other key actors have not been convinced that the potential benefit of sweetening the deal this way for IOCs would be worth the possible political ramifications. (Note: Some MPs have opposed Project Kuwait on the grounds that it would somehow transfer or imply IOC ownership of Kuwaiti reserves. They would presumably be similarly suspicious of allowing IOCs to book Kuwaiti reserves. End Note.)

New KPC CEO Management Style

18. (C) Nawaf said new KPC CEO Hani Hussein is less outwardly focused than predecessor Nader Sultan, and shuns attendance at international conferences in favor of an increased focus on corporate governance issues. Accordingly, he has ordered the formulation of a corporate ethics policy which include anti-sexual harrasment and religious freedom provisions.

Assembly Dissolution Unlikely

19. (C) Discussing the passage of Project Kuwait, Nawaf noted that many important issues were being crowded out by the current debate over women's rights. Although the situation had proved frustrating for the government, Nawaf said dissolution of the assembly would be highly unlikely given that the GOK had "paid a lot for this National Assembly" and the Prime Minister would not want to have to start from scratch or risk losing his key ally, Speaker Jassem Al-Khorafi.

110. (C) Comment: Despite the MOU between Iran and Kuwait, the behavior of Iranian negotiators and the Kuwaiti desire to structure the gas deal in their favor in order to guarantee forward movement are both strong indicators that the project may never come to fruition. The difficulty of Kuwait and Iran to deal with each other in good faith does not bode well for this project. Kuwait has not lost hope that Qatar will be able to supply gas in the near future and continues to seek a diplomatic solution to the Saudi-Qatari row. As a last option, Kuwait may eventually build an LNG terminal, albeit at great cost. Either way, it is post's estimation that Kuwait would prefer not to rely on Iran as its primary source.

Visit Embassy Kuwait's Classified Website:
<http://www.state.sgov.gov/p/nea/kuwait/>

You can also access this site through the
State Department's Classified SIPRNET website

LEBARON